

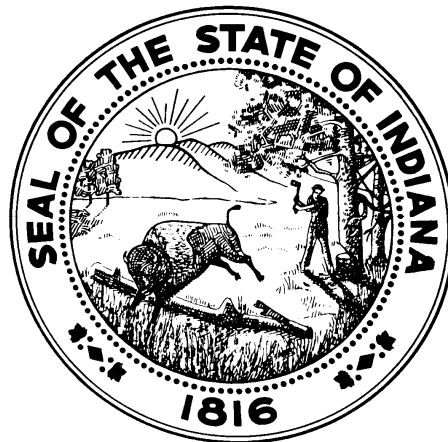
**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

ANNUAL FINANCIAL REPORT

2007

CITY OF GAS CITY MUNICIPAL UTILITIES

GRANT COUNTY, INDIANA



**FILED**  
08/06/2008



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials .....	2
Independent Auditor's Report .....	3
Statement of Net Assets .....	4-5
Statement of Revenues, Expenses, and Changes in Fund Net Assets .....	6
Statement of Cash Flows .....	7
Notes to Financial Statements .....	8-19
Supplementary Information: Schedule of Funding Progress .....	20
Audit Result and Comment: Overpayment .....	21
Exit Conference .....	22
Official Response .....	23

## OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Julie L. Flores	01-01-04 to 12-31-11
Mayor	H. Larry Leach	01-01-04 to 12-31-11
President of the Board of Public Works	H. Larry Leach	01-01-04 to 12-31-11
President of the Common Council	Larry J. Terwillegar	01-01-07 to 12-31-08
Superintendent of Utilities	Raymond P. Smith	01-01-07 to 12-31-08



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

**INDEPENDENT AUDITOR'S REPORT**

TO: THE OFFICIALS OF THE CITY OF GAS CITY MUNICIPAL UTILITIES, GRANT COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the City of Gas City Municipal Utilities (Utilities), departments of the City of Gas City, as of and for the year ended December 31, 2007. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the Utilities are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City of Gas City as of December 31, 2007, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the Utilities, as of December 31, 2007, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Schedule of Funding Progress, as listed in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Utilities have not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

July 15, 2008

CITY OF GAS CITY MUNICIPAL UTILITIES  
STATEMENT OF NET ASSETS  
December 31, 2007

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Current assets:			
Cash and cash equivalents	\$ 336,421	\$ 1,384,870	\$ 320,975
Investments	-	72,500	-
Interest receivable	1,561	7,177	3,013
Accounts receivable (net of allowance)	38,004	110,174	199,493
Accounts receivable - other	-	903	4,977
Interfund loans receivable	-	43,625	-
Inventories	24,347	1,581	174,962
Prepaid items	15,006	21,715	26,439
Total current assets	<u>415,339</u>	<u>1,642,545</u>	<u>729,859</u>
Noncurrent assets:			
Restricted cash, cash equivalents and investments:			
Cash with fiscal agent	-	92,040	-
Depreciation cash and investments	10,969	167,996	202,062
Reserve cash and investments	103,512	-	173,704
Bond and interest cash and investments	66,158	-	333
Debt service reserve cash and investments	-	30,880	167,760
Construction cash and investments	-	-	26,527
Customer deposits cash and investments	54,552	-	115,572
Gas pump cash and investments	-	1,826	8,503
Lease cash and investments	-	43,672	-
Tree cash and investments	-	-	83,961
Interest receivable	-	-	598
Total restricted assets	<u>235,191</u>	<u>336,414</u>	<u>779,020</u>
Loans receivable	<u>-</u>	<u>62,732</u>	<u>-</u>
Deferred charges	<u>20,540</u>	<u>84,689</u>	<u>59,652</u>
Capital assets:			
Land, improvements to land and construction in progress	51,353	3,822,331	-
Other capital assets (net of accumulated depreciation)	2,725,660	4,448,020	2,494,605
Total capital assets	<u>2,777,013</u>	<u>8,270,351</u>	<u>2,494,605</u>
Total noncurrent assets	<u>3,032,744</u>	<u>8,754,186</u>	<u>3,333,277</u>
Total assets	<u>3,448,083</u>	<u>10,396,731</u>	<u>4,063,136</u>

The notes to the financial statements are an integral part of this statement.

CITY OF GAS CITY MUNICIPAL UTILITIES  
STATEMENT OF NET ASSETS  
December 31, 2007  
(Continued)

<u>Liabilities</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>
Current liabilities:			
Accounts payable	10,934	44,704	288,693
Wages payable	4,307	7,264	7,700
Contracts payable	-	110,722	-
Taxes payable	2,976	-	15,209
Compensated absences	8,505	4,064	4,383
Interfund loans payable	27,727	-	-
Capital leases payable	3,715	-	3,715
Interest payable	776	776	776
Current liabilities payable from restricted assets:			
Customer deposits	54,552	-	115,572
Capital leases payable	-	30,431	-
Interest payable	8,466	20,183	-
Loans payable	70,000	-	-
Total current liabilities	<u>191,958</u>	<u>218,144</u>	<u>436,048</u>
Noncurrent liabilities:			
Revenue bonds payable	-	-	1,960,000
Capital leases payable	27,303	27,299	27,303
Loans payable	<u>1,084,940</u>	<u>3,496,714</u>	<u>-</u>
Total noncurrent liabilities	<u>1,112,243</u>	<u>3,524,013</u>	<u>1,987,303</u>
Total liabilities	<u>1,304,201</u>	<u>3,742,157</u>	<u>2,423,351</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	1,591,055	4,715,907	503,587
Restricted for debt service	169,670	166,592	168,093
Restricted for other purposes	65,521	169,822	610,329
Unrestricted	<u>317,636</u>	<u>1,602,253</u>	<u>357,776</u>
Total net assets	<u>\$ 2,143,882</u>	<u>\$ 6,654,574</u>	<u>\$ 1,639,785</u>

The notes to the financial statements are an integral part of this statement.

CITY OF GAS CITY MUNICIPAL UTILITIES  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
As Of And For The Year Ended December 31, 2007

	Water Utility	Wastewater Utility	Electric Utility
Operating revenues:			
Metered water revenue:			
Residential	\$ 544,518	\$ -	\$ -
Commercial	163,987	-	-
Residential sales	-	976,494	2,364,863
Commercial and industrial sales	-	493,863	1,963,965
Public street and highway lighting	-	-	41,506
Fire protection revenue	78,944	-	-
Penalties	6,613	29,950	28,516
Other	9,526	14,713	28,235
	<u>803,588</u>	<u>1,515,020</u>	<u>4,427,085</u>
Total operating revenues			
Operating expenses:			
Source of supply and expense - operations and maintenance	39,720	-	-
Water treatment expense - operations and maintenance	144,748	-	-
Power production	-	-	3,349,097
Transmission and distribution	129,025	-	460,900
Collection system - operations and maintenance	-	120,575	-
Treatment and disposal - operations and maintenance	-	383,157	-
Customer accounts	25,027	29,059	32,173
Administration and general	203,483	229,041	337,564
Bad debt expense	1,578	-	9,120
Depreciation and amortization	109,169	172,998	217,448
	<u>652,750</u>	<u>934,830</u>	<u>4,406,302</u>
Total operating expenses			
Operating income	<u>150,838</u>	<u>580,190</u>	<u>20,783</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	23,702	68,286	58,455
Interest expense	(35,804)	(3,506)	(94,311)
Amortization of debt issue costs	(1,550)	-	(3,314)
Miscellaneous expense	(17,363)	(19,664)	(36,184)
	<u>(31,015)</u>	<u>45,116</u>	<u>(75,354)</u>
Total nonoperating revenues (expenses)			
Income (loss) before transfers	119,823	625,306	(54,571)
Transfers out	-	-	(145,000)
Change in net assets	119,823	625,306	(199,571)
Total net assets - beginning	<u>2,024,059</u>	<u>6,029,268</u>	<u>1,839,356</u>
Total net assets - ending	<u>\$ 2,143,882</u>	<u>\$ 6,654,574</u>	<u>\$ 1,639,785</u>

The notes to the financial statements are an integral part of this statement.



CITY OF GAS CITY MUNICIPAL UTILITIES  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
As Of And For The Year Ended December 31, 2007

	Water Utility	Wastewater Utility	Electric Utility
Cash flows from operating activities:			
Receipts from customers and users	\$ 810,243	\$ 1,523,753	\$ 4,470,841
Payments to suppliers and contractors	(260,487)	(271,092)	(3,685,381)
Payments to employees	(292,558)	(474,432)	(479,911)
Other payments	(17,363)	(19,664)	(36,184)
Net cash provided by operating activities	<u>239,835</u>	<u>758,565</u>	<u>269,365</u>
Cash flows from noncapital financing activities:			
Purchase of building (to be repaid by City)	-	(78,630)	-
Interfund loan payment	(20,000)	20,000	-
Transfer to other funds	-	-	(145,000)
Net cash used by noncapital financing activities	<u>(20,000)</u>	<u>(58,630)</u>	<u>(145,000)</u>
Cash flows from capital and related financing activities:			
Proceeds from capital debt	-	201,438	-
Acquisition and construction of capital assets	(19,292)	(148,907)	(68,553)
Principal paid on capital debt	(68,511)	(28,766)	(73,511)
Interest paid on capital debt	(36,369)	(4,932)	(94,399)
Net cash provided (used) by capital and related financing activities	<u>(124,172)</u>	<u>18,833</u>	<u>(236,463)</u>
Cash flows from investing activities:			
Interest received	<u>23,941</u>	<u>66,762</u>	<u>59,636</u>
Net increase (decrease) in cash and cash equivalents	119,604	785,530	(52,462)
Cash and cash equivalents, January 1	<u>452,008</u>	<u>935,754</u>	<u>1,151,859</u>
Cash and cash equivalents, December 31	<u>\$ 571,612</u>	<u>\$ 1,721,284</u>	<u>\$ 1,099,397</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 150,838	\$ 580,190	\$ 20,783
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization expense	109,169	172,998	217,448
Bad debt expense	1,578	-	9,120
Nonoperating expense	(17,363)	(19,664)	(36,184)
(Increase) decrease in assets:			
Accounts receivable - customer	3,697	9,636	47,297
Accounts receivable - other	2,958	(903)	(3,541)
Inventories	(227)	(486)	(16,128)
Prepaid items	(5,871)	(9,834)	(6,264)
Increase (decrease) in liabilities:			
Accounts payable	(8,030)	26,403	34,054
Wages payable	1,128	1,574	1,880
Taxes payable	(144)	-	(756)
Compensated absence payable	858	(1,349)	553
Customer deposits	1,244	-	1,103
Total adjustments	<u>88,997</u>	<u>178,375</u>	<u>248,582</u>
Net cash provided by operating activities	<u>\$ 239,835</u>	<u>\$ 758,565</u>	<u>\$ 269,365</u>
Noncash investing, capital and financing activities:			
Capital assets acquired through loans payable	\$ -	\$ 3,210,587	\$ -
Capital assets acquired through contracts payable	-	110,722	-
Capital assets acquired through capitalized interest	-	18,768	-
Deferred charges acquired through loans payable	-	84,689	-

The notes to the financial statements are an integral part of this statement.

CITY OF GAS CITY MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the City of Gas City Municipal Utilities and are not intended to present fairly the position of the City of Gas City (City). The Utilities, whose operations are controlled by the City, represent all of the City's enterprise funds.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Fund Net Assets; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the business-type activity are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Utilities' cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the Utilities to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Nonparticipating certificates of deposit, demand deposits and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

CITY OF GAS CITY MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets balance sheet because their use is limited by applicable bond covenants.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings	\$ 5,000	Composite	33 to 50 years
Improvements other than buildings	5,000	Composite	33 to 50 years
Machinery and equipment	5,000	Composite	10 years
Transportation equipment	5,000	Composite	10 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Utilities during the current year was \$152,389. Of the amount, \$18,768 was included as part of the cost of capital assets under construction in connection with the wastewater plant project.

5. Compensated Absences

- a. Bonus Leave – Utility employees earn bonus leave at the rate of 5 days per year. Bonus leave may be used for sick, vacation or personal leave. Unused bonus leave may be accumulated indefinitely. Accumulated bonus leave up to 80 hours may be paid in December each year. Accumulated bonus leave is paid to employees upon separation of employment.

CITY OF GAS CITY MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

- b. Vacation Leave – Utility employees earn vacation leave at rates from 5 days to 25 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

Bonus leave is accrued when incurred.

No liability is reported for vacation leave.

6. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

II. Detailed Notes on All Funds

A. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

B. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

<u>Water Utility</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 51,353	\$ -	\$ -	\$ 51,353
Capital assets, being depreciated:				
Buildings	581,874	-	-	581,874
Improvements other than buildings	3,265,560	1,439	-	3,266,999
Machinery and equipment	251,959	14,940	-	266,899
Transportation equipment	70,245	-	-	70,245
Totals	4,169,638	16,379	-	4,186,017

CITY OF GAS CITY MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

<u>Water Utility (continued)</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated (continued):				
Less accumulated depreciation for:				
Buildings	44,687	11,637	-	56,324
Improvements other than buildings	1,064,749	65,311	-	1,130,060
Machinery and equipment	202,170	25,196	-	227,366
Transportation equipment	39,582	7,025	-	46,607
Totals	1,351,188	109,169	-	1,460,357
Total capital assets, being depreciated, net	2,818,450	(92,790)	-	2,725,660
Total Water Utility capital assets, net	<u>\$ 2,869,803</u>	<u>\$ (92,790)</u>	<u>\$ -</u>	<u>\$ 2,777,013</u>
<u>Wastewater Utility</u>				
Capital assets, not being depreciated:				
Land	\$ 125,689	\$ -	\$ -	\$ 125,689
Construction in progress	312,355	3,384,287	-	3,696,642
Total capital assets, not being depreciated	438,044	3,384,287	-	3,822,331
Capital assets, being depreciated:				
Buildings	28,485	-	-	28,485
Improvements other than buildings	7,053,218	31,590	-	7,084,808
Machinery and equipment	313,643	15,484	-	329,127
Transportation equipment	87,312	36,913	18,500	105,725
Totals	7,482,658	83,987	18,500	7,548,145
Less accumulated depreciation for:				
Buildings	20,424	570	-	20,994
Improvements other than buildings	2,691,239	141,064	-	2,832,303
Machinery and equipment	146,653	31,364	-	178,017
Transportation equipment	87,311	-	18,500	68,811
Totals	2,945,627	172,998	18,500	3,100,125
Total capital assets, being depreciated, net	4,537,031	(89,011)	-	4,448,020
Total Wastewater Utility capital assets, net	<u>\$ 4,975,075</u>	<u>\$ 3,295,276</u>	<u>\$ -</u>	<u>\$ 8,270,351</u>

CITY OF GAS CITY MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

<u>Electric Utility</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Buildings	\$ 233,476	\$ -	\$ -	\$ 233,476
Improvements other than buildings	3,764,756	-	-	3,764,756
Machinery and equipment	716,878	68,553	-	785,431
Transportation equipment	400,465	-	16,400	384,065
<b>Totals</b>	<b>5,115,575</b>	<b>68,553</b>	<b>16,400</b>	<b>5,167,728</b>
Less accumulated depreciation for:				
Buildings	109,154	7,004	-	116,158
Improvements other than buildings	1,343,079	112,943	-	1,456,022
Machinery and equipment	648,553	68,325	-	716,878
Transportation equipment	371,289	29,176	16,400	384,065
<b>Totals</b>	<b>2,472,075</b>	<b>217,448</b>	<b>16,400</b>	<b>2,673,123</b>
<b>Total Electric Utility capital assets, net</b>	<b>\$ 2,643,500</b>	<b>\$ (148,895)</b>	<b>\$ -</b>	<b>\$ 2,494,605</b>

Depreciation expense was charged to functions/programs of the Utilities as follows:

Water Utility	\$ 109,169
Wastewater Utility	172,998
Electric Utility	217,448
<b>Total depreciation expense</b>	<b>\$ 499,615</b>

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2007</u>	<u>Committed</u>
Wastewater treatment plant renovation and expansion	<u>\$ 6,420,505</u>	<u>\$ 3,696,642</u>	<u>\$ 2,723,863</u>

D. Interfund Balances and Activity

1. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2007, is as follows:

CITY OF GAS CITY MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Due To	Due From		
	General Fund	Water Utility	Totals
Wastewater Utility:			
2008	\$ 19,625	\$ 24,000	\$ 43,625
2009	19,625	3,727	23,352
2010	19,625	-	19,625
2011	19,755	-	19,755
Totals	\$ 78,630	\$ 27,727	\$ 106,357

Interfund balances resulted from the time lag between the dates that (1) interfund loans are repaid, (2) interfund goods and services are provided or reimbursable expenditures occur, (3) transactions are recorded in the accounting system and (4) payments between funds are made.

2. Interfund Transfers

Interfund transfers at December 31, 2007, were as follows:

Transfer From	Transfer To
	General Fund
Electric Utility	<u>\$ 145,000</u>

The Utility typically uses transfers to fund ongoing operating subsidies.

E. Leases

Capital Leases

The Utilities have entered into various capital leases for a jetvac, skidsteer and dozer. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of December 31, 2007, are as follows:

CITY OF GAS CITY MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2008	\$ 42,859
2009	14,817
2010	15,046
2011	15,288
2012	15,545
2013-2016	<u>31,919</u>
 Total minimum lease payments	 135,474
 Less amount representing interest	 <u>15,708</u>
 Present value of net minimum lease payments	 <u><u>\$ 119,766</u></u>

Assets acquired through capital leases still in effect are as follows:

	Water Utility	Wastewater Utility	Electric Utility
	<u>          </u>	<u>          </u>	<u>          </u>
Machinery and equipment	\$ 37,250	\$ 226,250	\$ 37,250
Accumulated depreciation	<u>3,725</u>	<u>117,125</u>	<u>3,725</u>
 Totals	 <u><u>\$ 33,525</u></u>	 <u><u>\$ 109,125</u></u>	 <u><u>\$ 33,525</u></u>

F. Long-Term Liabilities

1. Revenue Bonds

The Utility issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

Purpose	Interest Rates	Amount
<u>                                  </u>	<u>                  </u>	<u>                  </u>
\$2,100,000 Electric Utility substation revenue bonds of 2004	4.25% to 4.85%	<u><u>\$ 1,960,000</u></u>

Revenue bonds debt service requirements to maturity are as follows:



CITY OF GAS CITY MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Year Ended December 31	Electric Utility	
	Principal	Interest
2008	\$ -	\$ 44,746
2009	75,000	87,898
2010	75,000	84,709
2011	80,000	81,416
2012	85,000	77,909
2013-2017	470,000	331,735
2018-2022	585,000	215,036
2023-2026	<u>590,000</u>	<u>59,170</u>
Totals	<u>\$ 1,960,000</u>	<u>\$ 982,619</u>

2. State Revolving Fund Loans Payable

In 2000, the Water Utility entered into a State Revolving Fund Loan. Under terms of the loan, revenue bonds were purchased by the Indiana Bond Bank, the proceeds of which were used to finance the water treatment plant expansion. Funds were loaned to the Water Utility as construction costs accrued to the maximum amount allowed of \$1,415,000. At the completion of construction, the outstanding principal balance of \$1,414,940 was amortized over a period of 20 years. Annual debt service requirements to maturity for the loan, including interest of \$249,884, are as follows:

2008	\$ 102,478
2009	100,448
2010	98,418
2011	101,316
2012	99,141
2013-2017	500,614
2018-2021	<u>402,409</u>
Total	<u>\$ 1,404,824</u>

In 2007, the Wastewater Utility entered into a State Revolving Fund Loan. Under terms of the loan, revenue bonds were purchased by the Indiana Bond Bank, the proceeds of which were used to finance the wastewater treatment plant expansion. Funds were loaned to the Wastewater Utility as construction costs accrued to the maximum amount allowed of \$6,780,000. At the completion of construction, the outstanding principal balance will be amortized over a period of 20 years. Annual debt service requirements to maturity for the loan have yet to be determined.

CITY OF GAS CITY MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable:					
Electric Utility	\$ 2,030,000	\$ -	\$ 70,000	\$ 1,960,000	\$ -
Loan payable:					
Water Utility	1,219,940	-	65,000	1,154,940	70,000
Wastewater Utility	-	3,496,714	-	3,496,714	-
Totals	1,219,940	3,496,714	65,000	4,651,654	70,000
Capital lease payable:					
Water Utility	34,529	-	3,511	31,018	3,715
Wastewater Utility	86,496	-	28,766	57,730	30,431
Electric Utility	34,529	-	3,511	31,018	3,715
Totals	155,554	-	35,788	119,766	37,861
Total long-term liabilities	\$ 3,405,494	\$ 3,496,714	\$ 170,788	\$ 6,731,420	\$ 107,861

III. Other Information

A. Risk Management

The Utilities are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Job Related Illnesses or Injuries to Employees

During 1997, the Utilities joined the Indiana Public Employer's Plan, a public entity risk pool currently operating as a common risk management and insurance program for approximately 350 member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of job related illnesses or injuries to employees. The Utilities pay an annual premium to the risk pool for its job related illnesses or injuries to employees coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event. The risk pool obtains independent coverage for insured events in excess of the \$1,000,000 limit.

CITY OF GAS CITY MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

B. Rate Structure

1. Water Utility

On March 15, 1988, the City Council adopted Ordinance 1-1988 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on July 20, 2004. The Utility has 2,571 customers.

2. Wastewater Utility

The current rate structure was approved by the City Council on July 20, 2004. The Utility has 2,478 customers.

3. Electric Utility

On March 15, 1988, the City Council adopted Ordinance 1-1988 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on January 15, 2002. The Utility has 3,114 customers.

C. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, including the Utilities, contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the Utilities authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund  
Harrison Building, Room 800  
143 West Market Street  
Indianapolis, IN 46204  
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The Utilities' annual pension cost and related information, as provided by the actuary, is presented in this note.

CITY OF GAS CITY MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Information to segregate the assets/liabilities and the actuarial study figures between the City and the Utilities is not available. Therefore, the liability for Net Pension Obligation (NPO) is considered an obligation of the City as a whole and is not presented as an asset/liability of the proprietary funds.

Actuarial Information for the Above Plan

	<u>PERF</u>
Annual required contribution	\$ 84,914
Interest on net pension obligation	(5,224)
Adjustment to annual required contribution	<u>5,953</u>
Annual pension cost	85,643
Contributions made	<u>59,611</u>
Increase in net pension obligation	26,032
Net pension obligation, beginning of year	<u>(72,058)</u>
Net pension obligation, end of year	<u><u>\$ (46,026)</u></u>
Contribution rates:	
Utilities	6.5%
Plan members	3%
Actuarial valuation date	07-01-07
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
	40 years
Amortization period	
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

Actuarial Assumptions

Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

CITY OF GAS CITY MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	06-30-05	\$ 51,942	111%	\$ (96,074)
	06-30-06	75,833	68%	(72,058)
	06-30-07	85,643	70%	(46,026)

CITY OF GAS CITY MUNICIPAL UTILITIES  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-05	\$ 1,098,120	\$ 1,282,946	\$ (184,826)	86%	\$ 1,197,311	(15%)
07-01-06	1,041,936	1,318,643	(276,707)	79%	1,126,779	(25%)
07-01-07	1,193,213	1,470,633	(277,420)	81%	1,160,716	(24%)

CITY OF GAS CITY MUNICIPAL UTILITIES  
AUDIT RESULT AND COMMENT

OVERPAYMENT

As noted in prior Report B29905, a contract was awarded for \$1,115,711, including change orders, to furnish the equipment for the Electric Substation Project, which was completed in 2006. Payments on this contract totaled \$1,129,039. The difference of \$13,328 could not be explained by the Utility Officials. Utility Officials were instructed to investigate this possible overpayment and to pursue a refund if necessary. No action has been taken as of July 15, 2008.

Governmental units should collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF GAS CITY MUNICIPAL UTILITIES  
EXIT CONFERENCE

The contents of this report were discussed on July 15, 2008, with Julie L. Flores, Clerk-Treasurer; Larry J. Terwillegar, President of the Common Council; and H. Larry Leach, Mayor. The official response has been made a part of this report and may be found on page 23.



# **CITY OF GAS CITY**

*"Gas City, The City With A Future"*

211 E. Main Street  
Gas City, IN 46933  
765-677-3079

**LARRY LEACH**  
Mayor

**JULIE FLORES**  
Clerk -Treasurer

July 22, 2008

Mr. Gary DeWitt  
11768 North Roanoke Road  
Roanoke, IN 46738

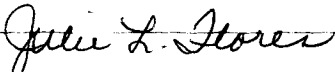
Dear Mr. DeWitt:

In response to issues brought to us as a result of the audit of Gas City's books, I would offer the following comments:

## **"SUB-STATION OVERPAYMENT"**

I have had several correspondences with Reed Cox and Gary Coughlin from HD Supply, who purchased Hughes Supply. Together we have tried to resolve this issue. They were informed that if issue could not be resolved, the City would have no alternative but to send an invoice for the overpayment. I have invoiced HD Supply for \$13, 328.00. Invoice is dated July 15, 2008.

Sincerely,



Julie L. Flores

Cc: File

**CITY COUNCIL:** Michael Planck, Jim Richards, Donald Clark II, David Huffman, Larry Terwillegar